



OPERATION SMILE, INC.

Consolidated Financial Statements

June 30, 2023

(With Independent Auditors' Report Thereon)

OPERATION SMILE, INC.

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KPMG LLP
Suite 1510
222 Central Park Avenue
Virginia Beach, VA 23462

Independent Auditors' Report

The Board of Directors
Operation Smile, Inc.:

Opinion

We have audited the consolidated financial statements of Operation Smile, Inc. (the Company), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Virginia Beach, Virginia
May 7, 2024

OPERATION SMILE, INC.

Consolidated Statement of Financial Position

June 30, 2023

Assets

Cash	\$	67,002,870
Investments		10,873,292
Mission advances and other receivables		3,264,569
Contributions receivable, net (note 2)		19,554,515
Prepaid expenses and other assets		3,540,146
Inventories		1,923,146
Operating right-of-use asset (note 5)		21,778
Property and equipment, net (notes 3 and 5)		17,560,393
Total assets	\$	<u>123,740,709</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable and accrued expenses	\$	4,655,723
Refundable advances		4,315,490
Deferred revenue		82,783
Finance lease obligations (note 5)		22,425
Total liabilities		<u>9,076,421</u>
Net assets:		
Without donor restrictions		98,253,653
With donor restrictions (note 6)		16,410,635
Total net assets		114,664,288
Commitments and contingencies (notes 5 and 9)		
Total liabilities and net assets	\$	<u>123,740,709</u>

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Activities

Year ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenues:			
Contributions (note 8)	\$ 65,078,321	30,962,301	96,040,622
Gifts-in-kind (note 4)	2,191,867	—	2,191,867
Contributed services (note 4)	51,617,970	—	51,617,970
Program service revenue	366,665	—	366,665
Net assets released from restrictions	31,167,451	(31,167,451)	—
Total revenues	150,422,274	(205,150)	150,217,124
Expenses and loss:			
Expenses:			
Program services:			
Medical programs (note 4)	76,621,028	—	76,621,028
Education and sustainability	30,634,552	—	30,634,552
Total program services	107,255,580	—	107,255,580
Supporting services:			
Fundraising	22,895,751	—	22,895,751
Administration	9,314,923	—	9,314,923
Total supporting services	32,210,674	—	32,210,674
Total expenses	139,466,254	—	139,466,254
Other expense, net	(2,478,024)	—	(2,478,024)
Foreign currency transaction losses, net	1,771	—	1,771
Gain on contributions receivable	—	—	—
Total expenses and loss	136,990,001	—	136,990,001
Change in net assets	13,432,273	(205,150)	13,227,123
Net assets at beginning of year	84,821,380	16,615,785	101,437,165
Net assets at end of year	\$ 98,253,653	16,410,635	114,664,288

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Cash Flows

Year ended June 30, 2023

Cash flows from operating activities:	
Change in net assets	\$ 13,227,123
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization expense	1,218,516
Changes in operating assets and liabilities:	
Prepaid expenses	(426,190)
Mission advances and other receivables	(1,523,621)
Contributions receivable, net	(7,388,150)
Inventories	50,972
Accounts payable and accrued expenses	(172,913)
Deferred revenue	(113,207)
Refundable advances	2,809,736
Net cash provided by operating activities	<u>7,682,266</u>
Cash flows from investing activities:	
Purchases of property and equipment	(135,176)
Purchases of investments	(288,038)
Proceeds from sale of investments	81,045
Net cash used in investing activities	<u>(342,169)</u>
Cash flows from financing activity:	
Principal payments on finance lease obligations	<u>(16,501)</u>
Net cash used in financing activity	<u>(16,501)</u>
Net increase in cash	7,323,596
Cash at beginning of year	<u>59,679,274</u>
Cash at end of year	<u>\$ 67,002,870</u>
Supplemental cash flow information:	
Cash paid for interest on finance lease obligations	\$ 12,508

See disclosure of noncash items in note 4 to the consolidated financial statements.

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Consolidated Statement of Functional Expenses

Year ended June 30, 2023

	<u>Program services</u>			<u>Supporting services</u>			<u>Total expenses</u>
	<u>Medical programs</u>	<u>Education and sustainability</u>	<u>Total</u>	<u>Fundraising</u>	<u>Administration</u>	<u>Total</u>	
Grants	\$ 9,278,585	6,765,619	16,044,204	—	—	—	16,044,204
Salaries and benefits	4,586,667	6,265,083	10,851,750	3,316,044	4,121,694	7,437,738	18,289,488
Professional services	1,645,920	5,559,702	7,205,622	2,255,994	734,516	2,990,510	10,196,132
Advertising and promotion	112,845	5,429,512	5,542,357	16,541,614	908,569	17,450,183	22,992,540
Supplies and equipment	1,143,120	399,696	1,542,816	337,371	2,420,777	2,758,148	4,300,964
Mission supplies	2,366,218	311,552	2,677,770	934	260	1,194	2,678,964
Mission supplies gift-in-kind	1,961,104	163,092	2,124,196	—	—	—	2,124,196
Occupancy	96,951	128,035	224,986	3,751	456,091	459,842	684,828
Travel and conferences	2,985,438	2,089,830	5,075,268	277,048	115,350	392,398	5,467,666
Interest	—	—	—	—	12,508	12,508	12,508
Depreciation and amortization	563,551	159,117	722,668	84,151	411,697	495,848	1,218,516
Insurance	221,157	812	221,969	1,624	99,543	101,167	323,136
Other mission expense	6,005	—	6,005	—	—	—	6,005
Public education and awareness	—	3,306,665	3,306,665	—	—	—	3,306,665
Contributed services	51,617,970	—	51,617,970	—	—	—	51,617,970
Other	35,497	55,837	91,334	77,220	33,918	111,138	202,472
Total expenses	<u>\$ 76,621,028</u>	<u>30,634,552</u>	<u>107,255,580</u>	<u>22,895,751</u>	<u>9,314,923</u>	<u>32,210,674</u>	<u>139,466,254</u>

See accompanying notes to consolidated financial statements.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

(1) Nature of Organization and Summary of Significant Accounting Policies

(a) Nature of Organization

Operation Smile, Inc. (Operation Smile or OSI) is a 501c(3) not-for-profit voluntary health and welfare organization whose purpose includes performing life-changing surgery on people born with cleft lip and cleft palate, medical education and health system strengthening in low- and middle-income countries. As one of the largest medical volunteer-based nonprofits, Operation Smile has mobilized thousands of medical volunteers from a wide range of medical specialties from more than 80 countries. Operation Smile engages public-private partnerships to advance healthcare delivery, train local medical professionals to provide surgical care for patients in their communities, donate crucial medical equipment and supplies, and increase access to surgical care so that everyone living with cleft is treated.

In May 2010, OS HQ, LLC, a wholly owned subsidiary of Operation Smile, was formed to hold the assets and liabilities for the global center located in Virginia Beach, Virginia.

OSI has six representative offices in international countries, and their activities have been included in the accompanying consolidated financial statements. OSI has international foundations (OSI affiliates) that host project teams, which are responsible for all in-country program logistics. International foundations may also raise funds and awareness to support programs in international countries. The accompanying consolidated financial statements do not include the accounts of OSI affiliates in international countries.

(b) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Operation Smile, including its wholly owned subsidiary, OS HQ, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Contributions

Contributions of cash and other assets, including unconditional promises to give, are recognized as revenue when the gifts are received by OSI. Contributions of other assets are recorded at their fair value as of the gift date and classified in the statement of activities based on the existence of donor-imposed restrictions on the contributions. Unconditional promises to give that are expected to be collected within one year are recorded on the date of gift at net realizable value, which approximates fair value. Unconditional promises to give that are expected to be collected in future years are recorded using present value techniques, which measure the fair value on the date of gift. The discount rates used to compute the present value are determined at the time the unconditional promises to give are initially recognized as revenue and are not revised subsequently. Amortization of the discount is recorded as additional contribution revenue in accordance with any donor-imposed restriction on the contribution.

Contributions with restrictions, which are met in the same fiscal year as their receipt, are reported as contributions without donor restrictions. Conditional promises to give are not recognized as revenues until such time as the conditions are substantially met.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

(d) Cash

Cash consists primarily of cash in banks. Cash in banks exceeded federally insured limits at June 30, 2023. Cash with donor restrictions was \$9,337,642, including a \$1,060,000 perpetual endowment, for the year ended June 30, 2023, with \$2,027,726 being held in a separate bank account in accordance with donor-imposed restrictions.

(e) Investments

Investment securities consist of mutual funds held in investment broker accounts. The net realized and unrealized gains and losses on investments are reflected in "other expense, net," in the accompanying consolidated statement of activities. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

(f) Prepaid Expenses and Other Assets

Prepaid expenses are stated at cost less applicable amortization and include expenses prepaid for events that will occur in the next fiscal year.

(g) Inventories

Inventories consist primarily of supplies to be used for medical programs. Purchased inventory is valued at cost on the date of purchase. Donated inventory is valued at fair value on the date of receipt. Both are accounted for on the first-in, first-out basis.

(h) Property and Equipment

Property and equipment are stated at cost except for donated equipment, artwork, and land, which are stated at fair value at the date of receipt. Medical equipment and furniture, fixtures, and office equipment are depreciated using the straight-line method over estimated useful lives ranging from 3 to 10 years. No provision for depreciation is made on land or artwork. Additionally, no provision for depreciation is made on work in process until such time as the relevant assets are completed and placed into service. Buildings and building improvements are depreciated using the straight-line method over their estimated useful lives of 40 years. Property and equipment held under finance leases are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Total depreciation expense and lease amortization for the year ended June 30, 2023, was \$1,218,516.

(i) Deferred Revenue

Deferred revenue consists of cash collected for program events that will occur and be recognized as revenue in future periods.

(j) Refundable Advances

Refundable advances consist of cash collected that OSI is entitled to only if conditions are met.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

(k) Classification of Net Assets

Net Assets Without Donor Restrictions – Net assets available for use and not subject to donor-imposed restrictions of time or purpose.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions.

(l) Functional Expenses

OSI allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly.

Other expenses that are common to several functions are allocated based on various statistical bases, such as content, time, and purpose.

(m) Joint Cost Allocation

OSI incurred expenses that were identifiable with a particular function but served joint purposes. Expenses related to certain events, donor communication, and program materials jointly support medical programs, education and sustainability, fundraising, and administration and were allocated by their function classification as follows for the year ended June 30, 2023:

Medical programs	\$	325,942
Education and sustainability		4,429,870
Fundraising		12,814,732
Administration		<u>1,333,157</u>
Total joint costs	\$	<u><u>18,903,701</u></u>

(n) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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June 30, 2023

(o) Fair Value Measurements

OSI utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to OSI at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

OSI's investments represent the financial assets that are accounted for at fair value on a recurring basis. At June 30, 2023, the carrying value of all the investments was considered to be the fair value determined using Level 1 inputs in the fair value hierarchy. There were no transfers in and out of Level 3 for the year ended June 30, 2023.

(p) Endowment

OSI established its first donor restricted endowment fund in 2020. OSI has interpreted the Virginia Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, OSI classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted restricted net assets until those amounts are appropriated for expenditure by OSI in a manner consistent with the standard of prudence prescribed by the Act.

In accordance with Uniform Prudent Management of Institutional Funds Act (UPMIFA), OSI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of OSI and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

- The expected total return from income and the appreciation of investments
- Other resources of OSI
- The investment policies of OSI

For the year ended June 30, 2023, OSI had \$1,060,000 in the permanently restricted endowment.

The change in the endowment assets for the year ended June 30, 2023 were as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>
Beginning endowment net assets	\$ 8,312	1,060,000
Endowment contributed	—	—
Interest income	<u>52,721</u>	<u>—</u>
End of year	<u>\$ 61,033</u>	<u>1,060,000</u>

(q) Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2023, there was no indication of impairment. Any assets to be disposed of within the next fiscal year would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated statement of financial position.

(r) Charitable Remainder Trusts

During the year ended June 30, 2020, OSI became a beneficiary of two irrevocable trust agreements administered by a trustee. Contributions totaling \$5,313,940 were recorded to recognize OSI's beneficial interest in the trusts. The assets in both trust portfolios consist of equity, fixed income securities and cash and are recorded as a component of contributions receivable on the accompanying consolidated statement of financial position.

The carrying value of all beneficial interests as of June 30, 2023 was \$4,612,883.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

(2) Contributions Receivable

Contributions receivable as of June 30, 2023, are expected to be received as follows:

Within one year	\$	13,713,315
From one to five years		<u>6,232,452</u>
		19,945,767
Less discount to present value at rates, which range from 0.41% to 3.83%		<u>391,252</u>
	\$	<u><u>19,554,515</u></u>

Conditional promises as of June 30, 2023, consisted of the following initiatives:

The Global Essential Surgery: Building Surgical Ecosystems that Operate	\$	1,087,300
Cleft Free Malawi		2,294,627
Safe Surgery and Nutrition in India		600,000
Local Program Operations and Education in Africa, Asia, and Latin America		<u>2,780,364</u>
	\$	<u><u>6,762,291</u></u>

In 2019, OSI entered into an agreement with Global Essential Surgery: Building Surgical Ecosystems that Operate Initiative. The initiative seeks to develop sustainable, local capacity for essential surgery in the countries of Nicaragua, Madagascar, and Vietnam. In 2019, OSI entered into an agreement for the Cleft Free Malawi Initiative. The initiative seeks to reduce the backlog of patients living in Malawi with an unrepaired cleft condition and upskill the healthcare system in country. In 2023, Operation Smile Sweden agreed to support local program operations, regional operations, and training initiatives in Africa, Asia, and Latin America. These programs are intended to promote sustainability and extend access to care in those regions.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

(3) Property and Equipment

Property and equipment consist of the following at June 30, 2023:

Work in process	\$	582,348
Medical equipment		3,348,208
Furniture, fixtures, and office equipment		3,582,190
Buildings		14,763,095
Building improvements		1,987,824
Land		3,094,293
Artwork		<u>221,697</u>
		27,579,655
Less accumulated depreciation and amortization		<u>10,019,262</u>
Property and equipment, net	\$	<u><u>17,560,393</u></u>

As of June 30, 2023, furniture, fixtures, and office equipment recorded under finance leases have a cost basis of \$99,529 and related accumulated amortization of \$65,568 for a net book value of \$33,961.

(4) Contributed Services and Gifts-in-Kind

OSI's medical programs are staffed by volunteer surgical teams. The donated medical services are recorded at their estimated fair values and are classified as contributed services revenue and medical programs expense in the accompanying consolidated statement of activities. Such services amounted to \$51,617,970 in 2023. OSI's medical programs are staffed by volunteer administrative support staff. These administrative personnel services are not recorded in the accompanying consolidated financial statements.

Donated supplies and equipment that are received throughout the year for use in the overall Operation Smile mission, are recorded at their estimated fair values, and are classified as gifts-in-kind revenues in the accompanying consolidated statement of activities. These supplies are expensed as they are used and are classified as program supplies in the accompanying consolidated statement of activities. Donated equipment is depreciated using an estimated useful life and is included in property and equipment. Such donations and uses amounted to:

Donated:		
Medical supplies	\$	2,191,867
Usage:		
Medical supplies	\$	2,124,196

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

(5) Leases

OSI adopted ASC 842, *Leases*, for the year ending June 30, 2023. This standard requires lessees to recognize leases on the Consolidated Statement of Financial Position as right-of-use (ROU) assets and lease liabilities based on the value of the discounted future lease payments. In adopting ASC 842, OSI elected to use practical expedients, including but not limited to, not recording assets or liabilities for leases with terms of one year or less. Lease ROU and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. The ROU assets resulting from financing leases and the related liabilities are included in finance lease obligations in the Consolidated Statement of Financial Position. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the risk free rate. Operating lease cost is recognized on a straight-line basis over the lease term as rent expense within other operating expenses in the Consolidated Statement of Activities. Lease and non-lease components of lease agreements are not accounted for separately. Lease terms may include options to extend or terminate the lease when it is reasonably certain that OSI will exercise that option. The company adopted ASC 842 in 2023 with no material impact on the consolidated financial statements.

(6) Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2023:

International programs	\$	6,013,064
Global education and sustainability		3,335,409
Other programs		758,988
Global student programs		445,929
Research		43,314
Domestic programs		<u>61,553</u>
Total purpose restricted		10,658,257
Total time restricted		4,692,378
Perpetual endowment		<u>1,060,000</u>
Total net assets with donor restrictions	\$	<u><u>16,410,635</u></u>

(7) Retirement Savings Plan

OSI has a 401(k) retirement savings plan. Employees are eligible to participate beginning as of the first of the quarter following four months of employment. OSI matches a portion of the employee contributions and makes a safe harbor contribution on behalf of each employee. OSI's contributions to the retirement savings plans for the year ended June 30, 2023, were \$898,453.

(8) Related-Party Transactions

OSI recognized contributions from its board of directors, respective committee members, officers, and relatives of those charged with governance of \$15,410 for the year ended June 30, 2023. Some board members may also contribute directly to independent, affiliated Operation Smile international foundations.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

(9) Revolving Line of Credit

In September 2022, OSI renewed a line of credit agreement with a financial institution to provide for borrowings up to \$5,000,000. The line of credit bears interest payable monthly at the rate of AMERIBOR + 2.5% and does not expire. There was no outstanding balance on the line of credit at June 30, 2023.

(10) Unconsolidated Interests with Foreign Entities (Unaudited)

OSI has entered into an agreement with China Charities Aid Foundation for Children (CCAFC), a nationwide public-raising foundation in mainland China. CCAFC's purpose is to raise funds from the public to provide aid to a variety of children including those who confront special difficulties. The agreement between Operation Smile and CCAFC established the Operation Smile Special Fund of China Charities Aid Foundation for Children (Special Fund).

With the creation of this Special Fund, Operation Smile can conduct fundraising and aid activities within China related to the OSI mission including raising social funds, arranging and merging social voluntary resources, providing free surgery and relevant treatment for children who are suffering from cleft lip and palate and other maxillofacial deformities, education, and research while spreading the concept of charity and promoting the development of volunteerism. However, the accompanying consolidated financial statements do not include the activities of the Special Fund.

The Special Fund raised approximately \$623,420 for the year ended June 30, 2023. This amount was contributed by independent donors within China during fiscal year 2023. Approximately \$288,199 was spent within China from the Special Fund during fiscal year 2023, of which \$242,088 represented medical programs and other programmatic expenses.

(11) Liquidity and Availability

As of June 30, 2023, financial assets and liquidity resources available within one year of the balance sheet date for general expenditure such as operating expenses were as follows:

Cash	\$	67,002,870
Investments		10,873,292
Contributions receivable due within a year		13,713,315
Less:		
Cash with donor restrictions		9,337,642
Perpetual endowment		<u>1,060,000</u>
Total available net assets without donor restrictions	\$	<u><u>81,191,835</u></u>

OSI is supported by contributions with and without donor restrictions. OSI must maintain sufficient resources to satisfy the donor's request that the resources be used in a particular manner or in a future period. Investments consist of mutual funds, as disclosed in note 1. Interest income from the investments is reinvested. OSI maintains access to a \$5,000,000 line of credit as disclosed in note 9, which it may draw upon in case of an unanticipated liquidity event.

OPERATION SMILE, INC.

Notes to Consolidated Financial Statements

June 30, 2023

(12) Subsequent Events

OSI has evaluated subsequent events from the consolidated statement of financial position date through May 7, 2024 the date these consolidated financial statements were available to be issued and determined there are no other items to disclose.